

RONGELAP ATOLL LOCAL GOVERNMENT

**GENERAL PURPOSE FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2003

INDEPENDENT AUDITORS' REPORT

Mayor James Matayoshi
Rongelap Atoll Local Government
Republic of the Marshall Islands:

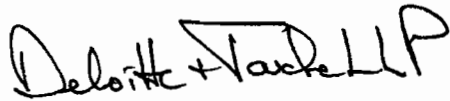
We have audited the accompanying general purpose financial statements of the Rongelap Atoll Local Government (RALGOV) as of September 30, 2003, and for the year then ended. These general purpose financial statements are the responsibility of the management of RALGOV. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RALGOV's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of RALGOV as of September 30, 2003, and the results of its operations and the cash flows of its nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The Combining Balance Sheet - Expendable Trust Funds (page 18) and the Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - Expendable Trust Funds (page 19) are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of RALGOV. These statements are also the responsibility of the management of RALGOV. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2008, on our consideration of the RALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

April 21, 2008

RONGELAP ATOLL LOCAL GOVERNMENT

Combined Balance Sheet - All Fund Types and Account Group

September 30, 2003

(With comparative totals as of September 30, 2002)

ASSETS	Governmental Fund Types		Fiduciary Fund Types		Account Group	Totals	
	General	Capital Projects	Expendable Trust	Non- expendable Trust	General Fixed Assets	Reporting Entity (Memorandum Only)	
						2003	2002
Cash and cash equivalents	\$ 42,940	\$ 21,004	\$ 193,476	\$ 735	\$ -	\$ 258,155	\$ 1,358,640
Time certificate of deposit	46,905	-	-	-	-	46,905	25,264
Investments	284,051	-	27,604,123	29,307,304	-	57,195,478	57,633,788
Receivables from federal agencies	-	35,334	-	-	-	35,334	-
Accrued interest receivable	-	-	132,329	102,671	-	235,000	302,710
Other receivables	50,439	176,737	2,509	-	-	229,685	192,128
Prepaid items	64,600	-	75,000	-	-	139,600	1,031,684
Due from other funds	14,312	240,000	125,000	600,000	-	979,312	430,317
Investment in fixed assets, net	-	-	-	-	8,595,539	8,595,539	7,867,394
	<u>\$ 503,247</u>	<u>\$ 473,075</u>	<u>\$ 28,132,437</u>	<u>\$ 30,010,710</u>	<u>\$ 8,595,539</u>	<u>\$ 67,715,008</u>	<u>\$ 68,841,925</u>
LIABILITIES AND FUND EQUITY (DEFICIENCY)							
Liabilities:							
Accounts payable	\$ 34,551	\$ 352,866	\$ 50,701	\$ -	\$ -	\$ 438,118	\$ 1,607,308
Other liabilities and accruals	67,335	-	-	-	-	67,335	703,031
Due to other funds	125,000	14,312	840,000	-	-	979,312	430,317
Total liabilities	<u>226,886</u>	<u>367,178</u>	<u>890,701</u>	<u>-</u>	<u>-</u>	<u>1,484,765</u>	<u>2,740,656</u>
Contingency and commitment							
Fund equity (deficiency):							
Investment in general fixed assets	-	-	-	-	8,595,539	8,595,539	7,867,394
Fund balances (deficit):							
Reserved for:							
Related assets	284,051	-	-	-	-	284,051	-
Resettlement	-	-	27,337,095	-	-	27,337,095	30,521,110
Claims	-	-	-	30,010,710	-	30,010,710	28,847,514
Unreserved (deficit)	<u>(7,690)</u>	<u>105,897</u>	<u>(95,359)</u>	<u>-</u>	<u>-</u>	<u>2,848</u>	<u>(1,134,749)</u>
Total fund equity (deficiency)	<u>276,361</u>	<u>105,897</u>	<u>27,241,736</u>	<u>30,010,710</u>	<u>8,595,539</u>	<u>66,230,243</u>	<u>66,101,269</u>
	<u>\$ 503,247</u>	<u>\$ 473,075</u>	<u>\$ 28,132,437</u>	<u>\$ 30,010,710</u>	<u>\$ 8,595,539</u>	<u>\$ 67,715,008</u>	<u>\$ 68,841,925</u>

See accompanying notes to general purpose financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) -
 All Governmental Fund Types and Expendable Trust Fund
 Year Ended September 30, 2003
 (With comparative totals for the year ended September 30, 2002)

	Governmental Fund Types		Fiduciary	Totals	
	General	Capital	Fund Type	Reporting Entity	
		Project	Expendable	(Memorandum Only)	
		Trust	2003	2002	
Revenues:					
Dividends and interest	\$ -	\$ -	\$ 993,617	\$ 993,617	\$ 1,126,298
Net increase (decrease) in the fair value of investments	-	-	3,146,485	3,146,485	(2,555,786)
Other	136,195	67,884	13,295	217,374	4,471
Total revenues	136,195	67,884	4,153,397	4,357,476	(1,425,017)
Expenditures:					
Resettlement activities	-	3,860,520	-	3,860,520	6,549,563
Distributions	-	-	2,402,941	2,402,941	2,102,465
General government:					
Salaries, wages and benefits	577,249	-	-	577,249	587,224
Legal fees	-	-	473,021	473,021	450,000
Food program	287,731	-	-	287,731	208,384
Travel	183,838	-	-	183,838	223,182
Professional services	63,613	-	-	63,613	106,986
Scholarships	61,450	-	-	61,450	65,279
Donations	59,786	-	-	59,786	56,869
Repairs and maintenance	50,811	-	-	50,811	57,675
Loss on investment	45,949	-	-	45,949	-
Rental	42,808	-	-	42,808	43,273
Communications	31,832	-	-	31,832	33,448
Materials and supplies	25,179	-	-	25,179	20,368
Equipment	16,113	-	-	16,113	51,276
Freight	3,925	-	-	3,925	2,322
Miscellaneous	131,294	-	2,682	133,976	113,214
Investment management activities	-	-	199,101	199,101	189,469
Total expenditures	1,581,578	3,860,520	3,077,745	8,519,843	10,860,997
Excess (deficiency) of revenues over (under) expenditures	(1,445,383)	(3,792,636)	1,075,652	(4,162,367)	(12,286,014)
Other financing sources (uses):					
Operating transfers in	1,800,000	5,460,280	2,694,990	9,955,270	10,048,049
Operating transfers out	-	(594,990)	(6,960,280)	(7,555,270)	(7,948,049)
Proceeds from sale of fixed assets	-	-	-	-	295,000
Total other financing sources (uses), net	1,800,000	4,865,290	(4,265,290)	2,400,000	2,395,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	354,617	1,072,654	(3,189,638)	(1,762,367)	(9,891,014)
Fund balances (deficit) at beginning of year	(78,256)	(966,757)	30,431,374	29,386,361	39,277,375
Fund balances at end of year	\$ 276,361	\$ 105,897	\$ 27,241,736	\$ 27,623,994	\$ 29,386,361

See accompanying notes to general purpose financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in
Fund Balance (Deficit) - Budget and Actual - General Fund
Year Ended September 30, 2003

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Nitijela appropriation	\$ 15,000	\$ -	\$ (15,000)
Grant	-	79,183	79,183
Other	-	<u>57,012</u>	<u>57,012</u>
Total revenues	<u>15,000</u>	<u>136,195</u>	<u>121,195</u>
Expenditures:			
Salaries, wages and benefits	520,775	577,249	(56,474)
Food program	184,000	287,731	(103,731)
Travel	210,000	183,838	26,162
Professional services	140,000	63,613	76,387
Scholarships	100,000	61,450	38,550
Donations	45,000	59,786	(14,786)
Repairs and maintenance	58,000	50,811	7,189
Loss on investment	-	45,949	(45,949)
Rental	48,500	42,808	5,692
Communications	20,000	31,832	(11,832)
Materials and supplies	31,000	25,179	5,821
Equipment	8,500	16,113	(7,613)
Freight	7,000	3,925	3,075
Miscellaneous	<u>127,225</u>	<u>131,294</u>	<u>(4,069)</u>
Total expenditures	<u>1,500,000</u>	<u>1,581,578</u>	<u>(81,578)</u>
Deficiency of revenues under expenditures	<u>(1,485,000)</u>	<u>(1,445,383)</u>	<u>39,617</u>
Other financing sources:			
Operating transfers in	<u>1,500,000</u>	<u>1,800,000</u>	<u>300,000</u>
Total other financing sources	<u>1,500,000</u>	<u>1,800,000</u>	<u>300,000</u>
Excess of revenues and other financing sources over expenditures	15,000	354,617	339,617
Other changes in unreserved fund balance:			
Increase in reserve for related assets	-	(284,051)	(284,051)
Unreserved deficit at beginning of year	<u>(78,256)</u>	<u>(78,256)</u>	<u>-</u>
Unreserved deficit at end of year	<u>\$ (63,256)</u>	<u>\$ (7,690)</u>	<u>\$ 55,566</u>

See accompanying notes to general purpose financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenses and Changes in Fund Equity -
 Nonexpendable Trust Fund
 Year Ended September 30, 2003
 (With comparative totals for the year ended September 30, 2002)

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Section 177 Compact funding	\$ -	\$ 625,000
Investment income:		
Dividends and interest	715,377	902,563
Net increase (decrease) in the fair value of investments	3,001,866	(820,889)
Other	13,107	-
	<u>3,730,350</u>	<u>81,674</u>
Total operating revenues	<u>3,730,350</u>	<u>706,674</u>
Operating expenses:		
Fund manager fees	<u>167,154</u>	<u>194,134</u>
Total operating expenses	<u>167,154</u>	<u>194,134</u>
Operating income	<u>3,563,196</u>	<u>512,540</u>
Other financing uses:		
Operating transfers out	<u>(2,400,000)</u>	<u>(2,100,000)</u>
Total other financing uses	<u>(2,400,000)</u>	<u>(2,100,000)</u>
Net income (loss)	1,163,196	(1,587,460)
Fund balance at beginning of year	<u>28,847,514</u>	<u>30,434,974</u>
Fund balance at end of year	<u>\$ 30,010,710</u>	<u>\$ 28,847,514</u>

See accompanying notes to general purpose financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Cash Flows - Nonexpendable Trust Fund
Year Ended September 30, 2003

(With comparative totals for the year ended September 30, 2002)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Operating income	\$ 3,563,196	\$ 512,540
Adjustments to reconcile operating income to net cash provided by operating activities:		
Investment income	(3,730,350)	(81,674)
Decrease (increase) in assets:		
Due from other funds	(600,000)	-
Prepaid items	300,000	(300,000)
Accrued interest receivable	<u>16,886</u>	<u>(1,955)</u>
Net cash (used in) provided by operating activities	<u>(450,268)</u>	<u>128,911</u>
Cash flows from noncapital financing activities:		
Operating transfers out	<u>(2,400,000)</u>	<u>(2,100,000)</u>
Net cash used in noncapital financing activities	<u>(2,400,000)</u>	<u>(2,100,000)</u>
Cash flows from investing activities:		
Net liquidation of investments	1,262,608	3,301,991
Net realized gains (losses) on investments	228,140	(1,601,694)
Interest and dividends on investments	<u>728,484</u>	<u>902,563</u>
Net cash provided by investing activities	<u>2,219,232</u>	<u>2,602,860</u>
Net (decrease) increase in cash and cash equivalents	(631,036)	631,771
Cash and cash equivalents at beginning of year	<u>631,771</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ 735</u>	<u>\$ 631,771</u>

See accompanying notes to general purpose financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(1) Organization

The Rongelap Atoll Local Government (RALGOV) was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands and operates under the Constitution of the Rongelap Atoll Local Government. RALGOV is governed by an elected mayor and a thirteen-member council.

(2) Summary of Significant Accounting Policies

The accompanying general purpose financial statements of RALGOV have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of RALGOV's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

RALGOV uses funds and an account group to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying general purpose financial statements, RALGOV's funds are classified into two categories: governmental and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental funds are used to account for all or most of a government's general activities, including the acquisition or construction of general fixed assets (capital projects funds). The capital projects fund of RALGOV (the Resettlement Phase One Fund) accounts for funds received from the Resettlement Trust Fund under the agreement between the United States Department of the Interior and RALGOV regarding Phase I resettlement activities for the resettlement of Rongelap Atoll. The general fund is used to account for all general governmental activities of RALGOV not accounted for in another fund.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within RALGOV. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not RALGOV is under an obligation to maintain the trust principal.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

A. Measurement Focus and Basis of Accounting, Continued

The expendable trust funds of RALGOV are as follows:

- i. The Local Distribution Authority - this fund accounts for funds received under the Rongelap Claims Trust agreement, which represents 48% of the funds received by the Claims Trust Fund and between 15% and 35% of the Claims Trust Fund's net income. These funds are distributed by RALGOV to the people of Rongelap based on an approved distribution scheme.
- ii. The Resettlement Trust Fund - this fund accounts for United States Congress appropriations under United States Public Law 99-239 and 102-154, which were paid and distributed in accordance with an agreement between the Government of the United States, the Government of the Republic of the Marshall Islands and RALGOV to assist in the resettlement of Rongelap Atoll by the people of Rongelap.

The nonexpendable trust fund of RALGOV (the Claims Trust Fund) accounts for funds received under Article II, Section 4, of the agreement between the Government of the United States and the Government of the Republic of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association (the Compact). In accordance with Article II, Section 8, of the Compact, RALGOV executed the Rongelap Claims Trust agreement. Under the agreement, the Claims Trust Fund receives \$2,500,000 annually in quarterly payments as compensation for loss or damage to property and person of the people of Rongelap, of which 48% is distributed to the people of Rongelap through the Local Distribution Authority Fund. In addition, pursuant to Section 7.2 of the trust agreement, the Claims Trust Fund is required to distribute annually to the people of Rongelap between 15% and 35% of its net income. The remaining 52% is retained and added to the corpus of the Claims Trust Fund. Pursuant to Section 8.1 of the trust agreement, RALGOV may also invade up to 3% of the corpus of the Claims Trust Fund. Such invasion may occur in the event of an unforeseen natural disaster or other similar circumstance, as determined by the sole discretion of RALGOV, in order to prevent hardship to the people of Rongelap. An invasion of the corpus shall not occur more frequently than once every three years.

B. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Nonexpendable trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

The modified accrual basis of accounting is used by all governmental fund types and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

The accrual basis of accounting is utilized by nonexpendable trust funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

C. Budget

Annual budgets, as required by the RALGOV Constitution, are adopted on a basis consistent with GAAP for the Governmental Fund Type - General Fund. Accordingly, a Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) - Budget and Actual has been presented for the General Fund. All annual appropriations lapse at fiscal year end.

The RALGOV Constitution provides for the Executive Committee to introduce into the Council budget estimates of revenues and expenditures, together with an Appropriation Ordinance, to be adopted on or before the beginning of each fiscal year. The Appropriation Ordinance is prepared at the fund level, which is the level at which RALGOV can legally amend it once it has been adopted. Amendments are limited to no more than ten percent and must be approved by the Executive Committee. No supplemental appropriations were necessary during the year ended September 30, 2003.

Encumbrance accounting has not been utilized by the General Fund.

D. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash held in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by RALGOV. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the combined balance sheet. As of September 30, 2003, the carrying amount of RALGOV's total cash and cash equivalents and time certificates of deposit were \$305,060 and the corresponding bank balances were \$287,960. Of the bank balance amounts, \$240,992 were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003, bank deposits in the amount of \$100,000 were FDIC insured. RALGOV does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

E. Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

An investment of 20% or more of the voting stock of an investee is presumed to give the investor significant influence. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

F. Interfund Receivables/Payables

During the course of its operations, RALGOV records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the combined balance sheet.

G. Receivables

Other receivables consist of amounts advanced to individuals, on an unsecured basis, substantially all of whom are situated in the Republic of the Marshall Islands.

H. Prepaid Items

Payments made to vendors or persons for services that will benefit periods beyond September 30, 2003, are recorded as prepaid items.

I. Fixed Assets

Fixed assets used in governmental fund type operations (general fixed assets) are recorded in the General Fixed Assets Account Group at cost or estimated historical cost if purchased or constructed. Depreciation, when assessed, is charged as a reduction in the investment in general fixed assets and an increase in accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets through use of the straight-line method. The estimated useful lives of these assets are as follows:

Airport and dock	30 - 40 years
Roads	30 years
Buildings/facility and improvements	5 - 10 years
Other equipment	3 years
Motor vehicles	3 years
Office equipment	3 years
Furniture and fixtures	1 - 3 years

J. Estimates

The preparation of general purpose financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the general purpose financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

K. Memorandum Only - Total Column

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position or results of operations or cash flows in accordance with GAAP. Interfund eliminations have not been made in the aggregation of this data.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

L. New Accounting Standards

In fiscal year 2004, RALGOV will implement the following pronouncements:

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. In June 2001, GASB issued Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which amended certain provisions of GASB Statement No. 34. RALGOV is required to adopt GASB Statement No. 34, as amended by GASB Statement No. 37, and certain provisions of GASB Statement No. 38 effective October 1, 2003.

These statements establish new financial reporting standards for governmental entities, which results in a significant change in the financial reporting model used by governments, including statement formats and changes in fund types and account groups. In addition to the traditional fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus, and to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements.

In fiscal year 2005, RALGOV will implement the following pronouncements:

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3).

In fiscal year 2006 or thereafter, RALGOV will implement the following pronouncements:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*, which improves the understandability and comparability of net assets information by making the assessment of legal enforceability more uniform across governments. This Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

GASB Statement No. 47, *Accounting for Termination Benefits*, which requires employees to disclose a description of the termination benefit arrangement, the cost of termination benefits, and significance methods and assumptions used to determine termination benefits liabilities.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

L. New Accounting Standards, Continued

GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

(3) Investments

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

- Category 1 Insured or registered, or securities held by RALGOV or its agent in RALGOV's name;
- Category 2 Uninsured and unregistered with securities held by the broker's or dealer's trust department or agent in RALGOV's name; or
- Category 3 Uninsured and unregistered, with securities held by the broker or dealer or by its trust department or agent but not in RALGOV's name.

As of September 30, 2003, RALGOV's investments are held in the name of RALGOV and are administered by investment managers subject to Securities Investor Protection Corporation insurance.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(3) Investments, Continued

A. Expendable Trust Funds

Investments of the Expendable Trust Funds as of September 30, 2003, are as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Resettlement Trust Fund:				
Cash management	\$ -	\$ -	\$ -	\$ 1,755,825
Common stocks	-	14,577,010	-	14,577,010
Preferred stocks	-	210,200	-	210,200
U.S. Government notes and bonds	-	5,122,508	-	5,122,508
Corporate notes and bonds	-	4,567,650	-	4,567,650
Unit investment trust	-	1,370,930	-	1,370,930
	<u>\$ -</u>	<u>\$ 25,848,298</u>	<u>\$ -</u>	<u>\$ 27,604,123</u>

B. Nonexpendable Trust Fund

Investments of the Nonexpendable Trust Fund as of September 30, 2003, are as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Claims Trust Fund:				
Cash management	\$ -	\$ -	\$ -	\$ 2,271,182
Future managed assets	-	5,783,135	-	5,783,135
Common stocks	-	12,871,039	-	12,871,039
U.S. Government notes and bonds	-	3,896,990	-	3,896,990
Corporate notes and bonds	-	3,358,589	-	3,358,589
Unit investment trust	-	1,126,369	-	1,126,369
	<u>\$ -</u>	<u>\$ 27,036,122</u>	<u>\$ -</u>	<u>\$ 29,307,304</u>

C. General Fund

During the year ended September 30, 2003, RALGOV invested \$330,000 in Rongelap Tourism Company, Inc. (RTCI), which engages in tourism activities in the Republic of the Marshall Islands. RTCI is 49.9% owned by RALGOV and 50.1% owned by Pacific International, Inc (PII). RALGOV's investment in RTCI is accounted for using the equity method.

A summary of audited financial information on RTCI as of September 30, 2003 and for the year then ended, are as follows:

Assets	\$ <u>661,459</u>
Liabilities	\$ <u>93,357</u>
Net loss	\$ <u>(91,898)</u>

At September 30, 2003, RALGOV's investment in RTCI amounted to \$284,051.

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2003, are summarized as follows:

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(4) Interfund Receivables and Payables, Continued

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Resettlement Phase One Fund	\$ 14,312
Resettlement Phase One Fund	Local Distribution Authority Fund	240,000
Resettlement Trust Fund	General Fund	125,000
Claims Trust Fund	Resettlement Trust Fund	<u>600,000</u>
		<u>\$ 979,312</u>

(5) Fixed Assets

Activity in the General Fixed Assets Account Group for the year ended September 30, 2003, is as follows:

	<u>Balance October 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2003</u>
Airport and dock	\$ 3,897,739	\$ 1,132,633	\$ -	\$ 5,030,372
Roads	-	2,393,680	-	2,393,680
Buildings/facility and improvements	1,390,846	110,000	-	1,500,846
Motor vehicles	502,035	-	-	502,035
Other equipment	469,730	10,780	-	480,510
Office equipment	94,987	-	-	94,987
Furniture and fixtures	<u>63,670</u>	<u>-</u>	<u>-</u>	<u>63,670</u>
	6,419,007	3,647,093	-	10,066,100
Less accumulated depreciation	<u>(1,312,669)</u>	<u>(583,262)</u>	<u>-</u>	<u>(1,895,931)</u>
	5,106,338	3,063,831	-	8,170,169
Construction work in progress	<u>2,761,056</u>	<u>425,370</u>	<u>(2,761,056)</u>	<u>425,370</u>
	<u>\$ 7,867,394</u>	<u>\$ 3,489,201</u>	<u>\$ (2,761,056)</u>	<u>\$ 8,595,539</u>

(6) Section 177 Compact Funding

Pursuant to the Claims Trust Agreement, as described at note 2(A), RALGOV received \$625,000 on October 22, 2001, being the final compensatory payment under the terms of the Compact. Of this amount, \$300,000 was made available for distribution to the people of Rongelap, with the remaining 52% being retained and added to the corpus of the Claims Trust Fund.

(7) Transfers In/Out

Operating transfers in/out for all fund types, for the year ended September 30, 2003, are as follows:

<u>General Fund</u>	<u>Transfer Out</u>	<u>Transfer In</u>
To General Fund from:		
Resettlement Trust Fund	\$ -	\$ 1,500,000
Resettlement Phase One Fund	<u>-</u>	<u>300,000</u>
	<u>\$ -</u>	<u>\$ 1,800,000</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(7) Transfers In/Out, Continued

Capital Projects Fund

To Resettlement Phase One Fund from:			
Resettlement Trust Fund	\$ -		\$ 5,460,280
From Resettlement Phase One Fund to:			
Resettlement Trust Fund	294,990		-
General Fund	<u>300,000</u>		<u>-</u>
	\$ <u>594,990</u>		\$ <u>5,460,280</u>

Expendable Trust Fund

To Local Distribution Authority Fund from:			
Claims Trust Fund	\$ -		\$ 2,400,000
To Resettlement Trust Fund from:			
Resettlement Phase One Fund	-		294,990
From Resettlement Trust Fund to:			
General Fund	1,500,000		-
Resettlement Phase One Fund	<u>5,460,280</u>		<u>-</u>
	\$ <u>6,960,280</u>		\$ <u>2,694,990</u>

Nonexpendable Trust Fund

From Claims Trust Fund to:			
Local Distribution Authority Fund	\$ <u>2,400,000</u>		\$ <u>-</u>

(8) Contingency

RALGOV is a party to an action filed on February 8, 2007 in the High Court of RepMar by Marshall Islands Tech, Ltd. asserting its rights to a leasehold interest in Rongelap Atoll, where RALGOV has substantial property, and has claimed for rental payments from and after December 16, 2005. The suit also seeks for a sublease where RALGOV is to provide, in the first year, over \$14 million to MIT and a total of \$38 million, over 25 years, which is the allowed lease term. Management believes that resolution of this case will be in favor of RALGOV. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

(9) Commitment

RALGOV entered into a land sublease agreement on November 14, 1996, with an annual lease of \$2,400. The agreement is for twenty-six years, with options to renew for four additional ten-year terms. Future minimum rental payments are as follows:

<u>Year ending</u> <u>September 30,</u>	
2004	\$ 2,400
2005	2,400
2006	2,400
2007	2,400
2008	2,400
Subsequent years	<u>33,900</u>
	\$ <u>45,900</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(10) Individual Deficit Fund Balances

Specific individual funds that have deficit fund balances as of September 30, 2003, are as follows:

Expendable Trust Fund

Local Distribution Authority Fund	\$ <u>95,359</u>
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(11) Risk Management

RALGOV is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. RALGOV has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims have not exceeded this commercial coverage in any of the past three years.

(12) Subsequent Event

On February 19, 2006, RALGOV and Pacific International, Inc., which owns 50.1% of Rongelap Tourism Co., Inc. (RTCI) agreed to suspend operations of RTCI pending further study of its operations. As of September 30, 2006, stockholders equity of RTCI amounted to \$82,259 from \$568,102 as of September 30, 2003.

**RONGELAP ATOLL LOCAL GOVERNMENT
EXPENDABLE TRUST FUNDS**

Combining Balance Sheet
September 30, 2003
(With comparative totals as of September 30, 2002)

	Local Distribution Authority	Resettlement Trust	Totals	
			2003	2002
<u>ASSETS</u>				
Cash and cash equivalents	\$ 192,833	\$ 643	\$ 193,476	\$ 180,636
Investments	-	27,604,123	27,604,123	29,837,602
Accrued interest receivable	-	132,329	132,329	183,153
Other receivables	2,509	-	2,509	1,750
Prepaid items	-	75,000	75,000	603,233
Due from other funds	-	125,000	125,000	125,000
	<u>\$ 195,342</u>	<u>\$ 27,937,095</u>	<u>\$ 28,132,437</u>	<u>\$ 30,931,374</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>				
Liabilities:				
Accounts payable	\$ 50,701	\$ -	\$ 50,701	\$ -
Other liabilities and accruals	-	-	-	300,000
Due to other funds	240,000	600,000	840,000	200,000
	<u>290,701</u>	<u>600,000</u>	<u>890,701</u>	<u>500,000</u>
Fund balances (deficit):				
Reserved for:				
Resettlement	-	27,337,095	27,337,095	30,521,110
Unreserved (deficit)	(95,359)	-	(95,359)	(89,736)
	<u>(95,359)</u>	<u>27,337,095</u>	<u>27,241,736</u>	<u>30,431,374</u>
	<u>\$ 195,342</u>	<u>\$ 27,937,095</u>	<u>\$ 28,132,437</u>	<u>\$ 30,931,374</u>

See Accompanying Independent Auditors' Report.

**RONGELAP ATOLL LOCAL GOVERNMENT
EXPENDABLE TRUST FUNDS**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Year Ended September 30, 2003
(With comparative totals for the year ended September 30, 2002)

	Local Distribution Authority	Resettlement Trust	<u>Totals</u>	
			2003	2002
Revenues:				
Dividends and interest	\$ -	\$ 993,617	\$ 993,617	\$ 1,125,514
Net increase (decrease) in the fair value of investments	-	3,146,485	3,146,485	(2,555,786)
Other	-	13,295	13,295	55
Total revenues	<u>-</u>	<u>4,153,397</u>	<u>4,153,397</u>	<u>(1,430,217)</u>
Expenditures:				
Distributions	2,402,941	-	2,402,941	2,502,465
Legal fees	-	473,021	473,021	450,000
Fund manager fees	-	199,101	199,101	189,469
Miscellaneous	2,682	-	2,682	-
Total expenditures	<u>2,405,623</u>	<u>672,122</u>	<u>3,077,745</u>	<u>3,141,934</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,405,623)</u>	<u>3,481,275</u>	<u>1,075,652</u>	<u>(4,572,151)</u>
Other financing sources (uses):				
Operating transfers in	2,400,000	294,990	2,694,990	2,647,500
Operating transfers out	-	(6,960,280)	(6,960,280)	(7,400,549)
Total other financing sources (uses), net	<u>2,400,000</u>	<u>(6,665,290)</u>	<u>(4,265,290)</u>	<u>(4,753,049)</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	(5,623)	(3,184,015)	(3,189,638)	(9,325,200)
Fund balances (deficit) at beginning of year	<u>(89,736)</u>	<u>30,521,110</u>	<u>30,431,374</u>	<u>39,756,574</u>
Fund balances (deficit) at end of year	<u>\$ (95,359)</u>	<u>\$ 27,337,095</u>	<u>\$ 27,241,736</u>	<u>\$ 30,431,374</u>

See Accompanying Independent Auditors' Report.